

SB 437 (Nofs) Testimony
Cliffs Natural Resources
Hearing of the Senate Committee on Energy & Technology
September 24, 2015

Good afternoon Chairman Nofs and members of the committee. My name is Ania Ediger and I serve as manager of government relations for Cliffs Natural Resources. By way of background, Cliffs Natural Resources is a merchant miner and the largest producer of iron ore pellets in North America. Cliffs' iron ore pellets are used to make iron and they ultimately become high-quality steel. We primarily serve customers in the Great Lakes region, including a Dearborn mill that produces steel used in the auto manufacturing sector.

Thank you for the opportunity to testify on SB 437. During our remarks today, we would like to explain why preserving the ability for Cliffs' iron ore mines to exercise Choice is an integral component to securing long-term capacity in Michigan's Upper Peninsula. By preserving a Choice option for the mines, the Michigan legislature can help facilitate an optimal outcome for new generation that is expected to solve reliability concerns and serve UP electric power customers for decades to come.

I'll now turn it over to my colleague Tolaver Rapp, Cliffs' Director of Global Energy Procurement to speak to Cliffs' role in facilitating new generation in the UP.

UP Energy Solution

In the coming years, the energy landscape of Michigan's Upper Peninsula will largely be shaped by a settlement agreement that was developed under the leadership of Governor Snyder and Attorney General Schuette in 2014/2015. This agreement was negotiated to resolve the reliability crisis that threatened to impose millions of dollars on UP energy consumers annually as a result of the expected closure of the only baseload generating facility in the Upper Peninsula, the coal-fired Presque Isle Power Plant.

As the largest energy user in the UP and an entity significantly impacted by these challenges, Cliffs Natural Resources was a party to this agreement. Wisconsin Electric, the owner of the Presque Isle Power Plant, was a signatory as well. This agreement established what we call the UP energy solution because it successfully outlined a path to secure long-term, economic, natural gas fired replacement generation for the Presque Isle Power Plant, while safeguarding UP ratepayers from experiencing another rate shock before replacement generation comes online by 2020.

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In accordance with the settlement agreement, Cliffs is pursuing development of the preferred generation solution for the Upper Peninsula: a natural gas fired, cogeneration facility that would be constructed by a private developer. This plant would meet some or all of the electric and steam needs of Cliffs' Michigan mines while providing power that could serve We Energies' regulated non-mine customers.

As we analyze a host of plant sizing and offtake options, it is critical for Cliffs to have the option to exercise Choice for two reasons:

First, Cliffs does not currently control all the existing transmission and distribution assets needed to feed power from the cogeneration facility to the Mines. This situation may require a private developer who ultimately builds the plant to register as an Alternative Electric Supplier (AES) and provide power to the Mines through a Choice contract.

Moreover, there is a possibility that the Mines will not procure 100% of their electric load from the cogeneration facility. To the extent the Mines have additional power needs, they require the ability to procure power from the Choice market through their AES. Without this optionality, the plant may be inefficiently sized, thus negatively impacting the electric rates of the mines and other UP ratepayers.

It will take time to refine the optimal configuration for the new power plant. However, as energy reform takes place today, we would ask that the legislature preserve the UP energy agreement and not limit optionality for the plant through policy reforms that could make new generation less economical and efficient.

Long-term Reliability

Importantly, we believe that preserving a Choice option for the iron ore mines is aligned with the energy goals of the Michigan legislature. To the extent you are preparing the state to respond to the retirement of generating facilities and ensure clean, affordable, and reliable options for electric power exist, the UP solution achieves that.

Cliffs has committed to guarantee capacity and reliability for the entire region through a long-term purchase power agreement that will facilitate construction of a new plant. This long-term capacity commitment goes well beyond the proposed requirements for Choice customers and Alternative Electric Suppliers proposed in SB 437. Moreover, it creates a circumstance wherein the customer exercising Choice (the Mines) will be the customer *necessarily* ensuring long-term capacity and reliability through a purchase power agreement.

Conclusion

We appreciate that the current version of SB 437 includes a continuation of the Mines' permission to exercise Choice. However, the qualifying language reflected in the current bill does not adequately capture the nature of the settlement agreement and imposes requirements the Mines could not meet as a result of how that agreement is structured.

For that reason, we urge members of the committee to consider adopting language providing that the Mines shall continue to have the permission to exercise Choice, subject to the requirement that the Mines continue to honor their commitments to guard against recurrence of a reliability crisis and contribute to development of a new clean generating facility.

In closing, we urge you to remember that there is a legal imperative and practical necessity to build generation in the UP today, and it is incumbent upon Cliffs to work towards that outcome. As a result of the UP settlement agreement, capacity, reliability and Choice are not contradictory policies. Rather, new, affordable and efficient generation can be facilitated through an option to exercise Choice and we respectfully ask that that the legislature recognize that in Michigan statute.